PRIMUS TELECOMMUNICATIONS GROUP INC
Form 10-Q
August 11, 2008

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-29092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**54-1708481** **(I.R.S. Employer Identification No.)**
7901 Jones Branch Drive, Suite 900, **McLean, VA** **(Address of principal executive offices)**	**22102** **(Zip Code)**

(703) 902-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

	Outstanding as of
Class	**July 31, 2008**
Common Stock $0.01 par value	**142,632,540**

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
NET REVENUE	$ 236,462	$ 226,430	$ 462,542	$ 452,433
OPERATING EXPENSES				
Cost of revenue (exclusive of depreciation included below)	142,739	141,643	284,518	285,659
Selling, general and administrative	70,247	68,516	139,416	136,212
Depreciation and amortization	8,095	7,343	16,056	13,900
(Gain) loss on sale or disposal of assets	115	676	(2,465)	684
Total operating expenses	221,196	218,178	437,525	436,455
INCOME FROM OPERATIONS	15,266	8,252	25,017	15,978
INTEREST EXPENSE	(13,554)	(16,424)	(28,747)	(29,858)
ACCRETION ON DEBT PREMIUM (DISCOUNT), NET	217	(76)	187	(374)
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	32,177	(2,315)	34,487	(8,274)
INTEREST AND OTHER INCOME	1,992	1,058	2,957	2,554
FOREIGN CURRENCY TRANSACTION GAIN	8,134	15,081	9,841	18,055
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	44,232	5,576	43,742	(1,919)
INCOME TAX BENEFIT (EXPENSE)	2,383	6,691	(37)	5,686
INCOME FROM CONTINUING OPERATIONS	46,615	12,267	43,705	3,767
LOSS FROM DISCONTINUED OPERATIONS, net of tax	(91)	(166)	(180)	(266)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax				5,958
NET INCOME	$ 46,524	$ 12,101	$ 43,525	$ 9,459
BASIC INCOME (LOSS) PER COMMON SHARE:				
Income from continuing operations	$ 0.33	$ 0.11	$ 0.31	$ 0.03
Loss from discontinued operations	(0.00)	(0.01)	(0.00)	(0.00)
Gain from sale of discontinued operations				0.05
Net income	$ 0.33	$ 0.10	$ 0.31	$ 0.08
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income from continuing operations	$ 0.25	$ 0.07	$ 0.23	$ 0.02
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations				0.04
Net income	$ 0.25	$ 0.07	$ 0.23	$ 0.06
BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	142,633	115,715	142,633	114,928

DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	190,328	184,719	195,221	184,467

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 55,550	$ 81,282
Restricted cash		362
Accounts receivable (net of allowance for doubtful accounts receivable of $13,489 and $12,039)	118,412	113,588
Prepaid expenses and other current assets	19,470	28,660
Total current assets	193,432	223,892
RESTRICTED CASH	10,782	9,677
PROPERTY AND EQUIPMENT Net	147,753	144,599
GOODWILL	40,539	40,134
OTHER INTANGIBLE ASSETS Net	989	1,557
OTHER ASSETS	33,431	40,544
TOTAL ASSETS	$ 426,926	$ 460,403
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 60,334	$ 74,893
Accrued interconnection costs	49,396	44,911
Deferred revenue	15,839	16,513
Accrued expenses and other current liabilities	53,518	54,420
Accrued income taxes	26,322	30,791
Accrued interest	11,191	12,460
Current portion of long-term obligations	9,301	11,228
Total current liabilities	225,901	245,216
LONG-TERM OBLIGATIONS (net of premium of $4,452 and $2,528)	608,876	662,675
OTHER LIABILITIES	80	52
Total liabilities	834,857	907,943
COMMITMENTS AND CONTINGENCIES (See Note 5.)		
STOCKHOLDERS DEFICIT:		
Preferred stock: Not Designated, $0.01 par value 1,410,050 shares authorized; none issued and outstanding; Series A and B, $0.01 par value 485,000 shares authorized; none issued and outstanding; Series C, $0.01 par value 559,950 shares authorized; none issued and outstanding		
Common stock, $0.01 par value 300,000,000 shares authorized; 142,632,540 shares issued and outstanding	1,426	1,426
Additional paid-in capital	718,827	718,695
Accumulated deficit	(1,031,253)	(1,074,778)
Accumulated other comprehensive loss	(96,931)	(92,883)

Total stockholders deficit	(407,931)	(447,540)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 426,926	$ 460,403

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 43,525	$ 9,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts receivable	5,696	4,885
Stock compensation expense	132	125
Depreciation and amortization	16,056	13,946
Gain on sale or disposal of assets	(2,465)	(5,078)
Accretion of debt discount (premium)	(187)	374
Deferred income taxes	2,845	
(Gain) loss on early extinguishment or restructuring of debt	(34,487)	8,274
Unrealized foreign currency transaction gain on intercompany and foreign debt	(9,628)	(19,507)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(6,388)	1,028
Decrease in prepaid expenses and other current assets	11,234	2,053
(Increase) decrease in other assets	905	(106)
Decrease in accounts payable	(16,639)	(556)
Increase (decrease) in accrued interconnection costs	3,159	(4,645)
Increase (decrease) in accrued expenses, deferred revenue, other current liabilities and other liabilities, net	(3,079)	929
Decrease in accrued income taxes	(4,455)	(4,844)
Decrease in accrued interest	(921)	(1,029)
Net cash provided by operating activities	5,303	5,308
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(14,599)	(17,041)
Sale of property and equipment	805	
Cash from disposition of business, net of cash disposed	1,676	5,527
Cash used in business acquisitions, net of cash acquired	(34)	
Decrease in restricted cash	103	596
Net cash used in investing activities	(12,049)	(10,918)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of the Company s debt securities	(11,217)	
Proceeds from issuance of long-term obligations		109,275
Deferred financing costs		(6,570)
Principal payments on long-term obligations	(8,287)	(58,179)
Net cash provided by (used in) financing activities	(19,504)	44,526
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	518	1,451
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,732)	40,367

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	81,282	64,317
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 55,550	$ 104,684
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 28,440	$ 29,776
Cash paid for taxes	$ 469	$ 669
Non-cash investing and financing activities:		
Capital lease additions	$ 35	$ 1,981
Leased fiber capacity additions	$	$ 1,786
Settlement of outstanding debt with issuance of common stock	$	$ 6,627
Settlement of outstanding debt with issuance of new senior secured debt	$ (133,159)	$
Issuance of new senior secured debt in exchange for outstanding debt	$ 88,794	$
Business disposition proceeds in note receivable	$	$ 641

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
NET INCOME	$ 46,524	$ 12,101	$ 43,525	$ 9,459
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustment	(3,021)	(6,795)	(4,048)	(8,411)
COMPREHENSIVE INCOME	$ 43,503	$ 5,306	$ 39,477	$ 1,048

See notes to consolidated financial statements.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements of Primus Telecommunications Group, Incorporated and subsidiaries (the Company or Primus) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the three or six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The results for the three months and six months ended June 30, 2008 and June 30, 2007 reflect the activities of certain operations as discontinued operations (see Note 10 Discontinued Operations).

The financial statements should be read in conjunction with the Company s audited consolidated financial statements included in the Company s most recently filed Form 10-K.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity Outlook As of June 30, 2008, the Company has $55.6 million of cash and cash equivalents. The Company believes that its existing cash and cash equivalents, will be sufficient to fund its debt service requirements, other fixed obligations (such as capital leases, vendor financing and other long-term obligations), and other cash needs for its operations for at least the next twelve months. The Company will continue to have significant debt service obligations on a mid-term and a long-term basis, as disclosed in Note 4. After recent debt buybacks and exchanges, the Company has $14.2 million principal amount of 12 $^{3}/4$% Senior Notes due in October 2009 and $8.6 million principal amount of Step Up Convertible Subordinated Debentures coming due in August 2009. The Company s strategies related to meeting its 2009 obligations and other cash needs are to strengthen the balance sheet opportunistically through potential de-leveraging transactions and equity capital infusions; to improve the non-sales and marketing cost structure and maintain an aggressive cost management program; to focus on improving sales productivity and margin enhancements by leveraging the network assets and increasing the revenue mix in favor of higher margin growth services; and opportunistically to sell non-strategic assets and businesses and use the proceeds either to accelerate increases in high margin products or to reduce debt. Although the Company believes that it will have sufficient liquidity to fund its obligations for the next 12 months, there can be no assurance that the Company will be successful in implementing its longer term strategies or obtain new capital at acceptable terms.

Principles of Consolidation The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. Beginning in the second quarter 2008, the Company intended and had the authority to sell its German retail operations, and therefore, is reporting this unit as discontinued operations. In March 2008, the Company sold its minority equity interest in Bekkoame Internet, Inc. (Bekko). The Company used the equity method of accounting for its investment in Bekko.

Presentation of sales taxes collected The Company reports any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer (including sales, use, value-added and some excise taxes) on a net basis (excluded from revenues).

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Stock-Based Compensation The Company uses a Black-Scholes option valuation model to determine the fair value of stock-based compensation under Statement of Financial Accounting Standards (SFAS) No. 123(R), consistent with that used for pro forma disclosures under SFAS No. 123. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company s historical experience. Expected volatility is based upon the historical volatility of the Company s stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option s expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future. The Company also had an Employee Stock Purchase Plan, which was suspended on July 27, 2006, and which allowed employees to elect to purchase stock at 85% of fair market value (determined monthly) and was considered compensatory under SFAS No. 123(R).

The Company recorded an incremental $70 thousand and $132 thousand stock-based compensation expenses for the three and six months ended June 30, 2008, respectively, and an incremental $67 thousand and $125 thousand during the three months and six months ended June 30, 2007, respectively, under guidance in SFAS No. 123(R).

The Company granted 125,000 and 90,000 options during the three months ended June 30, 2008 and 2007, respectively. The weighted average fair value at date of grant for options granted during the three months ended June 30, 2008 and 2007 was $0.10 and $0.32 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended June 30,	
	2008	**2007**
Expected dividend yield	0%	0%
Expected stock price volatility	96%	95%
Risk-free interest rate	3.0%	5.0%
Expected option term	4 years	4 years

As of June 30, 2008, the Company had 1.5 million unvested awards outstanding of which $0.2 million of compensation expense will be recognized over the weighted average remaining vesting period of 2.14 years.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, accrued interconnection cost disputes, the fair value of embedded derivatives, market assumptions used in estimating the fair values of certain assets and liabilities such as marketable securities and long-term obligations, the calculation used in determining the fair value of the Company s stock options required by SFAS No. 123(R), various tax contingencies, asset impairment write-downs, and purchase price allocations.

Newly Adopted Accounting Principle

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, for all financial instruments accounted for at fair value on a recurring basis. The Company does not have any non-financial instruments accounted for at fair value on a recurring basis. SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to

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transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

See table below for summary of the Company s financial instruments accounted for at fair value on a recurring basis:

		Fair Value as of June 30, 2008, using:		
	June 30, 2008	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 14,538	$ 14,538		
Derivative	149		$ 149	
Total	$ 14,687	$ 14,538	$ 149	

New Accounting Pronouncements

In March 2008, the Financial Accounting Standard Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging with the intent to provide users of financial statements with an enhanced understanding of the use of derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial statements. SFAS No. 161 is effective for financial statements issued for fiscal years after July 1, 2009. The Company anticipates that the adoption of this standard will not have a material impact on its results of operations, financial position and cash flows.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets subject to amortization consisted of the following (in thousands):

	As of June 30, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 4,225	$ (3,418)	$ 807	$ 4,074	$ (2,688)	$ 1,386
Other	1,884	(1,702)	182	1,678	(1,507)	171

Total	$ 6,109	$	(5,120)	$	989	$ 5,752	$	(4,195)	$ 1,557

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Amortization expense for customer lists and other intangible assets for the three months ended June 30, 2008 and 2007 was $0.5 million and $1.0 million, respectively. Amortization expense for customer lists and other intangible assets for the six months ended June 30, 2008 and 2007 was $1.0 million and $1.5 million, respectively. The Company expects amortization expense for customer lists and other intangible assets for the remainder of 2008 and the year ended December 31, 2009 to be approximately $0.7 million and $0.3 million, respectively.

Acquired intangible assets not subject to amortization consisted of the following (in thousands):

	As of June 30, 2008	As of December 31, 2007
Goodwill	$ 40,539	$ 40,134

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows (in thousands):

	United States	Canada	Asia-Pacific	Total
Balance as of January 1, 2008	$ 208	$ 27,287	$ 12,639	$ 40,134
Effect of change in foreign currency exchange rates	21	(786)	1,170	405
Balance as of June 30, 2008	$ 229	$ 26,501	$ 13,809	$ 40,539

4. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Obligations under capital leases	$ 6,776	$ 7,350
Leased fiber capacity	4,760	5,201
Senior secured term loan facility	96,750	97,250
Financing facility	35,000	35,000
Senior notes	200,186	255,270
Senior secured notes	206,744	113,947
Exchangeable senior notes	25,706	63,363
Convertible senior notes	33,954	76,196
Step up convertible subordinated debentures	8,301	20,326
Subtotal	618,177	673,903
Less: Current portion of long-term obligations	(9,301)	(11,228)
Total long-term obligations	$ 608,876	$ 662,675

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Payments of principal and interest are due as follows:

Year Ending December 31,	Vendor Financing	Senior Secured Term Loan Facility (1)	Financing Facility	Senior Notes	Convertible and Exchangeable Senior Notes (2)	Step Up Convertible Subordinated Debentures	Senior Secured Notes (2)	Total
2008 (as of June 30, 2008)	$ 5,477	$ 5,234	$ 1,562	$ 8,344	$ 1,225	$ 346	$ 13,486	$ 35,674
2009	3,550	10,396	3,124	30,875	2,451	9,332	24,980	84,708
2010	3,327	10,298	3,124	14,880	59,436		24,980	116,045
2011	75	94,250	3,124	14,880			186,789	299,118
2012	44		35,781	14,880				50,705
Thereafter	62			208,320				208,382
Total Minimum Principal & Interest Payments	12,535	120,178	46,715	292,179	63,112	9,678	250,235	794,632
Less: Amount Representing Interest	(999)	(23,428)	(11,715)	(91,993)	(5,543)	(1,037)	(74,934)	(209,649)
Face Value of Long-Term Obligations	11,536	96,750	35,000	200,186	57,569	8,641	175,301	584,983
Amount Representing Premium (Discount)					(246)	(340)	5,038	4,452
Add: Exchangeable Senior Notes and Senior Secured Notes Interest Treated as Long-Term Obligations					2,337		26,405	28,742
Book Value of Long Term Obligations	$ 11,536	$ 96,750	$ 35,000	$ 200,186	$ 59,660	$ 8,301	$ 206,744	$ 618,177

(1) For preparation of this table, the Company has assumed the interest rate of the Senior Secured Term Loan Facility to be 9.8%, which is the interest rate at June 30, 2008.

(2) For preparation of this table, the Company has shown separately the cash interest payments of the 5% Exchangeable Senior Notes and the portion of the 14 1/4% Senior Secured Notes that were issued through troubled debt restructurings as a portion of long-term obligations (see *Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures* below). The interest due on the 5% Exchangeable Senior Notes in 2008, 2009 and 2010 is $0.6 million, $1.2 million and $0.6 million, respectively. The interest due on this portion of the 14 1/4% Senior Secured Notes in 2008, 2009, 2010 and 2011 is $5.4 million, $8.8 million, $8.8 million and $3.4 million, respectively.

The indentures governing the senior notes, senior secured notes, senior secured term loan facility, convertible and exchangeable senior notes, and step up convertible subordinated debentures, as well as other credit arrangements, contain certain financial and other covenants which, among other things, will restrict the Company s ability to incur further indebtedness and make certain payments, including the payment of dividends and repurchase of subordinated debt held by the Company. The Company was in compliance with the above covenants at June 30, 2008.

Senior Secured Term Loan Facility

In February 2005, a direct wholly-owned subsidiary of the Company, Primus Telecommunications Holding, Inc. (PTHI), entered into a six-year, $100 million senior secured term loan facility (the Facility). Each borrowing made under the Facility may be, at the election of PTHI at the time of the borrowing, a London Inter- Bank Offered Rate (LIBOR) loan (which will bear interest at a rate equal to LIBOR + 6.50%), or a base rate loan (which will bear interest at a rate equal to the greater of the prime rate plus 5.50% or the federal funds effective rate plus 6.0%). The Facility contains no financial maintenance covenants. The Company borrowed $100 million under this Facility in February 2005.

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The Facility is to be repaid in 24 quarterly installments, which began on June 30, 2005, at a rate of one percent of the original principal per year over the next five years and nine months, and the remaining balance repaid on the sixth anniversary date of the Facility, with early redemption at a premium to par at PTHI s option at any time after February 18, 2006. The Facility is guaranteed by the Company and certain of PTHI s subsidiaries and is secured by certain assets of PTHI and its guarantor subsidiaries and stock pledges.

In February 2007, the Company received unanimous consent to an amendment of its existing $100 million Facility. This amendment enables Primus Telecommunications IHC, Inc. (IHC), a wholly-owned indirect subsidiary of the Company, to issue and have at any one time outstanding up to $200 million of existing authorized indebtedness in the form of newly authorized secured notes with a second lien security position. Pursuant to this authorization, the Company has issued certain secured second lien notes (14 1/4 % Senior Secured Notes). The amendment allowed for an increase of 1/4% to the interest rate of the Facility and adjusted the early call features.

The effective interest rate for the Facility at June 30, 2008 was 9.8%.

Financing Facility

In March 2007, the Company entered into a Senior Secured Credit Agreement (Credit Agreement) with a financial institution, to refinance an existing Canadian credit facility. The Credit Agreement provides for a $35.0 million non-amortizing loan bearing interest at a rate of LIBOR plus 425 basis points and matures in March 2012. The loan proceeds were used to refinance the existing Canadian credit facility, including certain costs related to the transaction, and to finance certain capital expenditures. The Credit Agreement is secured by the assets of the Company s Canadian operations and certain guarantees. In October 2007, the Company entered into a cross-currency principal and interest rate swap agreement, a portion of which was required by the Credit Agreement, which fixed the interest rate at 9.21% starting from October 31, 2007. At June 30, 2008, the Company had an outstanding liability of $35.0 million.

Senior Notes, Senior Secured Notes, Convertible Senior Notes, Exchangeable Senior Notes, Step Up Convertible Subordinated Debentures and Convertible Subordinated Debentures

14 1/4% Senior Secured Notes

In February 2007, subsequent to the effectiveness of the amendment of the Facility, IHC issued in a private transaction $57.2 million principal amount of the 14 1/ 4% Senior Secured Notes in exchange for $40.7 million principal amount of the Company s outstanding 12 3/4% Senior Notes and $23.6 million in cash. This exchange has been accounted for as a modification of debt with a portion deemed to be a troubled debt restructuring. In March 2007, IHC also issued for cash in private transactions an additional $51.0 million principal amount of 14 1/4% Senior Secured Notes with a $0.3 million discount. Net cash proceeds from the 14 1/4% Senior Secured Notes issuance, after giving effect to expenses, discounts and fees related to all of the foregoing transactions (including the amendment of the Facility) is $69.2 million. The Company recorded $5.1 million in costs associated with this issuance of the 14 1/4% Senior Secured Notes, which have been recorded as a loss on restructuring of debt.

In May 2008, IHC issued $67.1 million principal amount of the 14 1 /4% Senior Secured Notes in exchange for $49.0 million principal amount of the Company s 8% senior notes due 2014 (8% Senior Notes), $33.0 million principal amount of the Company s 5% exchangeable senior notes due June 2010 (5% Exchangeable Senior Notes), $43.1 million principal amount of the Company s 3 3/4% convertible senior notes due 2010 (3 3/4% Convertible Senior Notes), $5.3 million principal amount of the Company s 12 3/4% senior notes due 2009 (12 3/4% Senior Notes), and $4.7 million in cash. All exchanges were deemed troubled debt restructurings, and accordingly, have been accounted for as modifications of debt, with future cash interest payments of $26.4 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $32.2 million in connection with this exchange, including the expensing of $0.5 million of financing costs.

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The 14 1/4% Senior Secured Notes will mature on May 20, 2011 with early redemption at a premium to par at IHC s option at any time after February 2008. During specified periods, IHC may redeem at par up to 35% of the aggregate principal amount of the 14 1/4% Senior Secured Notes with the net cash proceeds of certain equity offerings of the Company. Accrued interest will be paid each May 31st and November 30th, beginning May 31st, 2007. The effective interest rate for the 14 1/4% Senior Secured Notes at June 30, 2008 was 12.4% for those amounts not related to the troubled debt restructuring discussed above (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information.)

5% Exchangeable Senior Notes

In the second quarter 2006, the Company completed the exchange of $54.8 million principal amount of the Company s 3 3/4% Convertible Senior Notes and $20.5 million in cash for $56.3 million principal amount of PTHI s 5% Exchangeable Senior Notes. This exchange was deemed a troubled debt restructuring, and accordingly, has been accounted for as a modification of debt, with total future cash payments of $67.6 million being recorded in long-term obligations. The Company recognized a gain on restructuring of debt of $4.8 million in connection with this exchange, including the expensing of $2.9 million of financing costs.

The 5% Exchangeable Senior Notes mature on June 30, 2010, as a result of the Company increasing its equity (through designated transactions) in the aggregate of $25 million during June and July 2007. Interest on the 5% Exchangeable Senior Notes is paid at the rate of 5% per annum on each June 30 and December 30, beginning on December 30, 2006. Under certain circumstances, the Company may elect to make interest payments in shares of common stock, although the holders of the 5% Exchangeable Senior Notes were entitled to receive the first two semi-annual interest payments wholly in cash. The 5% Exchangeable Senior Notes are exchangeable, in the aggregate, into 19,474,167 shares of the Company s common stock at a conversion price of $1.20 per share of common stock, subject to adjustment. If the closing bid price of the Company s common stock, for at least 20 trading days in any consecutive 30 trading-day period, exceeds 150% of the conversion price then in effect, the Company may elect to exchange the senior notes for shares of the Company s common stock at the conversion price, subject to certain conditions, including that no more than 50% of the 5% Exchangeable Senior Notes may be exchanged by the Company within any 30-day period. As of June 30, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may require the Company to repurchase the 5% Exchangeable Senior Notes at which time the Company has the option to settle in cash or common stock at an adjusted conversion price. The 5% Exchangeable Senior Notes are guaranteed by Primus Telecommunications Group, Incorporated (PTGI) (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

In May 2008, the Company restructured $33.0 million principal amount of the 5% Exchangeable Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote.

Step Up Convertible Subordinated Debentures

In the first quarter 2006, the Company completed the exchange of $27.4 million principal amount of the Company s 5 3/4% convertible subordinated debentures due 2007 (2000 Convertible Subordinated Debentures) for $27.5 million principal amount of the Company s step up convertible subordinated debentures due August 2009 (Step Up Convertible Subordinated Debentures) through two transactions. The Company recognized a gain on early extinguishment of debt of $1.5 million in connection with this exchange.

The Step Up Convertible Subordinated Debentures will mature on August 15, 2009. Interest will be payable from February 27, 2006 to December 31, 2006 at the rate of 6% per annum; from January 1, 2007 to December 31, 2007 at the rate of 7% per annum; and from January 1, 2008 to maturity at the rate of 8% per annum. Accrued interest will be paid each February 15 and August 15, beginning August 15, 2006, to holders of record on the preceding February 1 and August 1, respectively. The Step Up Convertible Subordinated Debentures are convertible into the Company s common stock at a conversion price of $1.187 per share of common stock through August 15, 2009. The Indenture permits the Company, at its sole option, to require

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conversion if the Company s stock trades at 150% of the conversion price for at least 20 days within a 30 day period, subject to certain conditions, including that no more than 25% of the notes may be exchanged within any 30 day trading period. As of June 30, 2008, such conversion trigger had not been met. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

During the quarter ended June 30, 2007, the Company exchanged 6,000,000 shares of the Company s common stock for the extinguishment of $5.0 million in principal amount of these convertible subordinated debentures. In accordance with SFAS No. 84, Induced Conversion of Convertible Debt, the Company recognized an induced conversion expense of $1.6 million and $0.7 million write-off of debt discount and deferred financing costs in connection with this conversion. During the first quarter of 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. The outstanding Step Up Convertible Subordinated Debentures are convertible in the aggregate into 7,279,697 shares of the Company s common stock.

Step Up Convertible Subordinated Debentures and 3 3/4% Convertible Senior Notes Supplemental Information

At the time of issuance of the Step Up Convertible Subordinated Debentures, the Company did not have sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Accordingly, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes were hybrid instruments with characteristics of a debt host agreement and contained embedded derivative features that had characteristics and risks that were not clearly and closely associated with the debt host. In the first quarter 2006, the conversion options were determined to be derivative instruments to be bifurcated and recorded as a current liability at fair value. In the second quarter 2006, the Company s shareholders voted to approve alternative proposals to authorize an amendment to the Company s Certificate of Incorporation to affect a one-for-ten reverse stock split or to authorize an amendment of the Company s Certificate of Incorporation allowing an increase of authorized common stock from 150,000,000 to 300,000,000. Either authorization ensured the Company would have the ability to control whether it has sufficient authorized and unissued shares of common stock to satisfy exercise and conversion of all of its convertible instruments. Therefore, the Company determined that the Step Up Convertible Subordinated Debentures, the 2000 Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes did not contain embedded derivative features as of the date of the shareholder vote, June 20, 2006, and added back the June 20, 2006 fair value of the embedded derivative into the debt balance. On July 27, 2006, the Board of Directors determined to increase the authorized shares of the common stock to 300,000,000.

The Company recorded a corresponding debt discount to the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes in the amount of the fair value of the embedded derivative at the issue date. An additional debt discount of $1.7 million was recorded for the Step Up Convertible Subordinated Debentures to bring the carrying value to fair value. The carrying value of the Step Up Convertible Subordinated Debentures at issuance was approximately $14.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes at issuance of the Step Up Convertible Subordinated Debentures was approximately $127.8 million. The Company is accreting the difference between the face values of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes and the corresponding carrying values to interest expense under the effective interest method on a monthly basis over the lives of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes. At June 30, 2008, the carrying value of the Step Up Convertible Subordinated Debentures (face value of $8.6 million) was $8.3 million, and the carrying value of the 3 3/4% Convertible Senior Notes (face value of $34.2 million) was $34.0 million. The effective interest rates of the Step Up Convertible Subordinated Debentures and the 3 3/4% Convertible Senior Notes at June 30, 2008 were 11.1% and 7.3%, respectively.

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8% Senior Notes

In January 2004, PTHI, a direct, wholly-owned subsidiary of the Company, completed the sale of $240 million in aggregate principal amount of 8% Senior Notes with semi-annual interest payments due on January 15th and July 15th, with early redemption at a premium to par at PTHI s option at any time after January 15, 2009. The Company recorded $6.7 million in costs associated with the issuance of the 8% Senior Notes, which have been recorded as deferred financing costs in other assets. The effective interest rate at June 30, 2008 was 8.4%. During specified periods, PTHI may redeem up to 35% of the original aggregate principal amount with the net cash proceeds of certain equity offerings of the Company. The 8% Senior Notes are guaranteed by PTGI (see Note 12 Guarantor/Non-Guarantor Consolidating Condensed Financial Information).

During the year ended December 31, 2004, the Company reduced $5.0 million principal balance of the 8% Senior Notes through open market purchases. In May 2008, the Company restructured $49.0 million principal amount of the 8% Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote.

3 3/4% Convertible Senior Notes

In September 2003, the Company completed the sale of $132 million in aggregate principal amount of 3 3/4% Convertible Senior Notes. The 3 3/4% Convertible Senior Notes are due September 2010, with semi-annual interest payments due on March 15th and September 15th. The Company recorded $5.2 million in costs associated with the issuance of the 3 3/4% Convertible Senior Notes, which have been recorded as deferred financing costs in other assets. Holders of these notes may convert their notes into the Company s common stock at any time prior to maturity at an initial conversion price of $9.3234 per share, which is equivalent to an initial conversion rate of 107.257 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances. The outstanding notes are convertible in the aggregate into 3,668,190 shares of the Company s common stock. In the event of a change in control, as defined, the holders may put the instrument to the Company at which time the Company has the option to settle in cash or common stock at an adjusted conversion price.

In the second quarter 2006, the Company restructured $54.8 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 5% Exchangeable Senior Notes within this footnote. In May 2008, the Company restructured $43.1 million principal amount of 3 3/4% Convertible Senior Notes; see prior disclosure regarding the 14 1/4% Senior Secured Notes within this footnote.

12 3/4% Senior Notes

In October 1999, the Company completed the sale of $250 million in aggregate principal amount of the 12 3/4% Senior Notes. The 12 3/4% Senior Notes are due October 15, 2009, with semi-annual interest payments due on October 15th and April 15th with early redemption at a premium to par at the Company s option at any time after October 15, 2004 and with an early redemption at par at the Company s option at any time after October 15, 2007.

During the years ended December 31, 2002, 2001 and 2000, the Company reduced the principal balance of these senior notes through open market purchases. In June and September 2002, the Company retired all of the 12 3/4% Senior Notes that it had previously purchased in the principal amount of $134.3 million in aggregate. The retired principal had been held by the Company as treasury bonds and had been recorded as a reduction of long-term obligations. During the year ended December 31, 2004, the Company retired $33.0 million principal amount of the 12 3/4% Senior Notes through open market purchases. During the year ended December 31, 2005, the Company exchanged 5,165,175 shares of the Company s common stock for the extinguishment of $8.6 million principal amount of these senior notes. During the quarter ended March 31, 2006, the Company exchanged 1,825,000 shares of the Company s common stock for the extinguishment of $2.5 million principal amount of these senior notes. During the first quarter 2007, the Company restructured $40.7 million principal amount of the

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12 ^{3}/4% Senior Notes; the Company entered into a supplemental indenture, amending the terms to eliminate certain covenants. See prior disclosure regarding the 14 ^{1}/4% Senior Secured Notes within this footnote. During the remainder of 2007, the Company retired $10.5 million principal amount of the 12 ^{3}/4% Senior Notes through open market purchases. In the first quarter of 2008, the Company made open market purchases of $0.8 million principal amount of its 12 ^{3}/ 4% Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs. In May 2008, the Company restructured $5.3 million principal amount of the 12 ^{3}/4% Senior Notes; see prior disclosure regarding the 14 ^{1} /4% Senior Secured Notes within this footnote.

Leased Fiber Capacity

In December 2000, the Company entered into a financing arrangement to purchase fiber optic capacity in Australia for 51.1 million Australian dollars (AUD) ($28.5 million at December 31, 2000) from Optus Networks Pty. Limited. As of December 31, 2001, the Company had fulfilled the total purchase obligation. The Company signed a promissory note payable over a four-year term ending in April 2005 bearing interest at a rate of 14.31%. During the three months ended June 30, 2003, the Company renegotiated the payment terms extending the payment schedule through March 2007, and lowering the interest rate to 10.2%. In October 2006, the Company renegotiated the payment terms of its promissory note payable to Optus Networks Pty. Limited to defer principal payments from April 2006 through December 2006 and was obligated to pay the remaining balance in three equal monthly principal payments in the first quarter 2007. In February 2007, the Company again renegotiated the payment terms of its $8.1 million (10.1 million AUD) promissory note payable to Optus Networks Pty. Limited to extend the payment schedule through December 2008 in 24 equal monthly payments. The interest rate remains 10.2%, and the interest payments continue monthly. At June 30, 2008 and December 31, 2007, the Company had a liability recorded in the amount of $4.7 million (4.9 million AUD) and $5.0 million (5.7 million AUD), respectively.

Equipment Financing and Other Long-Term Obligations

In November 2005, Primus Australia entered into a financing arrangement for network equipment. Payments are made over a five-year term ending October 2010. The effective interest rate on the current borrowing is 9.3%. At June 30, 2008 and December 31, 2007, the Company had a liability recorded under this agreement in the amount $4.6 million (4.8 million AUD) and $4.7 million (5.4 million AUD), respectively.

5. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under capital leases and leased fiber capacity financing (Vendor Financing), purchase obligations and non-cancelable operating leases as of June 30, 2008 are as follows (in thousands):

Year Ending December 31,	Vendor Financing	Purchase Obligations	Operating Leases
2008 (as of June 30, 2008)	$ 5,477	$ 4,051	$ 7,960
2009	3,550	7,503	13,089
2010	3,327	3,316	10,018
2011	75	2,584	7,288
2012	44	1,587	5,692
Thereafter	62		12,174
Total minimum lease payments	12,535	19,041	56,221
Less: Amount representing interest	(999)		
	$ 11,536	$ 19,041	$ 56,221

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The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year. The Company does not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term or at rates below or above market value. The Company made purchases under purchase commitments of $10.2 million and $0.1 million for the three months ended June 30, 2008 and June 30, 2007, respectively. The Company made purchases under purchase commitments of $19.1 million and $0.1 million for the six months ended June 30, 2008 and 2007, respectively.

Rent expense under operating leases was $4.7 million and $4.6 million for the three months ended June 30, 2008 and 2007, respectively. Rent expense under operating leases was $9.1 million and $8.0 million for the six months ended June 30, 2008 and 2007, respectively.

Litigation

The Company is subject to claims and legal proceedings that arise in the ordinary course of its business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Company. The Company believes that any aggregate liability that may result from the resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. (See Note 2 Summary of Significant Accounting Policies).

6. SHARE-BASED COMPENSATION

The Company sponsors an employee stock compensation plan (the Equity Incentive Plan). The total number of shares of common stock authorized for issuance under the Equity Incentive Plan is 13,000,000. Under the Equity Incentive Plan, awards may be granted to key employees or consultants of the Company and its subsidiaries in the form of Incentive Stock Options, Nonqualified Stock Options or Restricted Stock Units. The Equity Incentive Plan allows the granting of options at an exercise price of not less than 100% of the stock s fair value at the date of grant and allows the grant of restricted stock units (RSUs) for no consideration. The options and RSUs vest over a period of up to three years. No option will be exercisable more than ten years from the date it is granted. On June 16, 2004, the stockholders of the Company approved amendments to the Equity Incentive Plan, including (i) renaming the employee stock option plan the Equity Incentive Plan ; (ii) expanding the forms of awards permitted to be granted, including stock appreciation rights, restricted stock awards, stock units and other equity securities, and authorizing a tax deferral feature for executive officers; (iii) prohibiting the repricing of stock options in the future without stockholder approval; and (iv) requiring vesting in full to be not less than three years for restricted stock and stock unit awards, unless accelerated following the first anniversary of the award due to the satisfaction of predetermined performance conditions.

The Company sponsors a Director Stock Option Plan (the Director Plan) for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director upon election or reelection to purchase 45,000 shares of common stock, which vests in one-third increments as of the grant date and the first and second anniversaries of the grant date, over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than five years from the date of grant. On June 16, 2004, the stockholders of the Company approved amendments to the Director Plan to (i) increase the number of shares of common stock issuable pursuant to awards under the Director Plan by 300,000 to a total of 900,000; and (ii) authorize the issuance of restricted stock (in lieu of cash compensation at the discretion of individual Directors).

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A summary of stock option activity during the six months ended June 30 is as follows:

	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding January 1	7,368,262	$ 2.09	7,919,267	$ 2.15
Granted	1,035,000	$ 0.35	90,000	$ 0.99
Exercised		$		$
Forfeitures	(333,693)	$ 2.52	(452,801)	$ 2.28
Outstanding June 30	8,069,569	$ 1.86	7,556,466	$ 2.13
Eligible for exercise end of quarter	6,637,527	$ 2.15	6,587,349	$ 2.32

The following table summarizes information about stock options outstanding at June 30, 2008:

	Options Outstanding				Options Exercisable			
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Total Exercisable	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value
$0.27	80,000	9.83	$ 0.27	$ 5,600		0.00	$	$
$0.36 to $0.65	1,173,167	8.79	$ 0.41	$	182,500	4.86	$ 0.60	$
$0.73 to $0.88	724,333	7.20	$ 0.79	$	515,997	7.00	$ 0.79	$
$0.90	757,321	3.02	$ 0.90	$	757,321	3.02	$ 0.90	$
$0.92	772,080	7.36	$ 0.92	$	649,041	7.36	$ 0.92	$
$0.93 to $0.99	110,000	4.64	$ 0.98	$	80,000	4.89	$ 0.98	$
$1.33 to $1.61	19,500	5.31	$ 1.47	$	19,500	5.31	$ 1.47	$
$1.65	1,477,773	4.47	$ 1.65	$	1,477,773	4.47	$ 1.65	$
$1.90 to $2.38	1,716,045	4.50	$ 1.97	$	1,716,045	4.50	$ 1.97	$
$3.03 to $6.30	1,214,500	6.09	$ 4.98	$	1,214,500	6.09	$ 4.98	$
$12.31 to $17.44	16,800	1.02	$ 15.01	$	16,800	1.02	$ 15.01	$
$31.94	8,050	1.59	$ 31.94	$	8,050	1.59	$ 31.94	$
	8,069,569	5.78	$ 1.86	$ 5,600	6,637,527	5.09	$ 2.15	$

The number of unvested options expected to vest is 0.6 million shares, with a weighted average remaining life of 9.0 years, a weighted average exercise price of $0.47, and an intrinsic value of $6 thousand.

In 2007, 100,000 restricted stock units were granted, which is the only grant to date. None have vested as their vesting schedule is to vest 100% three years from grant date. The fair market value of the stock units at the grant date was $0.40 per share. In the second quarter of 2008, the Company recognized $3 thousand expense related to this grant.

In December 1998, the Company established the 1998 Restricted Stock Plan (the Restricted Plan) to facilitate the grant of restricted stock to selected individuals (excluding executive officers and directors of the Company) who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. The Company did not issue any restricted stock under the Restricted Plan for three months and six months ended June 30, 2008 and June 30, 2007. As of June 30, 2008, 54,000 shares have been issued, and none are considered restricted.

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7. GAIN OR LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT

In May 2008, the Company exchanged $49.0 million principal amount of the Company s 8% Senior Notes, $33.0 million principal amount of the Company s 5% Exchangeable Senior Notes, $43.1 million principal amount of the Company s 3 3/4% Convertible Senior Notes, $5.3 million principal amount of the Company s 12 3/4% 1999 Senior Notes, and $4.7 million of cash for $67.1 million principal amount of the Company s 14 1/4% Senior Secured Notes, resulting in a gain on restructuring of debt of $32.2 million including the expensing of $0.5 million of related financing costs.

In the first quarter 2008, the Company made open market purchases of $0.8 million of its 12 3/4% Senior Notes, resulting in a $0.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs.

In the first quarter 2008, the Company made open market purchases of $13.8 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a $2.1 million gain on early extinguishment of debt including the write-off of related deferred financing costs, discount and effective interest.

In June 2007, the Company exchanged 6,000,000 shares of the Company s common stock for the extinguishment of $5.0 million principal amount of its Step Up Convertible Subordinated Debentures, resulting in a loss on early extinguishment of debt of $2.3 million, including the write-off of related deferred financing costs and debt discount.

In March 2007, the Company refinanced an existing Canadian credit facility and recognized a $0.9 million loss on early extinguishment of debt for pre-payment penalties and the write-off of related deferred financing costs.

In February 2007, IHC issued in a private transaction $57.2 million principal amount of the 14 1/4% Senior Secured Notes, in exchange for $40.7 million principal amount of the Company s outstanding 12 3/4% Senior Notes and $23.6 million in cash. The Company recognized a loss on restructuring of debt of $5.1 million in connection with this exchange.

8. INCOME TAXES

The Company conducts business globally, and as a result, the Company or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	Open Tax Years
United States Federal	2000, 2002-2007
Australia	2002-2007
Canada	2003-2007
United Kingdom	2002-2007
Netherlands	2002-2007

During the second quarter of 2008 the Company concluded the Canadian audits for years 2000, 2001 and 2002. The final settlement of the audits resulted in a FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, release of liability of $3.2 million which impacted the effective rate. Upon conclusion of the prior year audits, Canada initiated audits for years 2004, 2005 and 2006 with expected completion during the first half of 2009. The Company is undergoing an examination in the Netherlands for the years 2002, 2003, 2004, and 2005 with an expected completion before year end 2008. The Company is also currently under examination in other foreign tax jurisdictions, none of which are individually material. As of June 30, 2008, $104.0 million of unrecognized tax benefits have been recorded in accordance with FIN No. 48.

The Company adopted the provisions of FIN No. 48 on January 1, 2007. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements as a result of the adoption of

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FIN No. 48, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company.

On an ongoing basis, the Company monitors activity in its 5% shareholder base for substantial changes in ownership as defined under Internal Revenue Code Section 382 (Section 382). In 2007 and the rest of the testing periods under Section 382, the Company has had significant activity in this shareholder base, but upon review of the 13G filings and other available data the Company believes that an ownership change did not occur during 2007 or during the six months ended June 30, 2008. If a change is to occur, the resulting Section 382 limitation would place severe limits on the Company s ability to utilize the United States net operating losses.

9. OPERATING SEGMENT AND RELATED INFORMATION

The Company has five reportable operating segments based on management s organization of the enterprise into geographic areas United States, Canada, Europe and Asia-Pacific, with the wholesale business within each region managed as a separate global segment. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income (loss) from operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Net revenue by geographic segment is reported on the basis of where services are provided. The Company has no single customer representing greater than 10% of its revenues. Operations and assets of the United States segment include shared corporate functions and assets, which the Company does not allocate to its other geographic segments for management reporting purposes. The wholesale business assets are indistinguishable from the respective geographic segments. Therefore, any reporting related to the wholesale business for assets, capital expenditures or other balance sheet items is impractical.

Summary information with respect to the Company s segments is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net Revenue by Geographic Region				
United States				
United States	$ 42,505	$ 42,887	$ 85,164	$ 88,755
Other	2,680	1,521	4,837	2,666
Total United States	45,185	44,408	90,001	91,421
Canada				
Canada	68,989	63,588	137,438	126,372
Total Canada	68,989	63,588	137,438	126,372
Europe				
United Kingdom	22,204	25,100	39,581	49,973
Germany	4,839	5,200	9,746	10,116
Other	18,618	15,142	34,324	30,265
Total Europe	45,661	45,442	83,651	90,354
Asia-Pacific				
Australia	75,992	71,950	150,066	142,151
Other	635	1,042	1,384	2,135
Total Asia-Pacific	76,627	72,992	151,452	144,286
Total net revenue	$ 236,462	$ 226,430	$ 462,542	$ 452,433

Net Revenue by Segment				
United States	$ 25,125	$ 28,352	$ 50,415	$ 55,745
Canada	68,989	63,500	137,438	126,160
Europe	16,925	18,431	32,690	38,472
Asia-Pacific	76,557	72,630	151,278	143,552
Wholesale	48,866	43,517	90,721	88,504
Total	$ 236,462	$ 226,430	$ 462,542	$ 452,433

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	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Provision for Doubtful Accounts Receivable				
United States	$ 831	$ 131	$ 1,635	$ 734
Canada	531	525	877	1,281
Europe	200	238	398	143
Asia-Pacific	961	946	2,228	2,350
Wholesale	345	157	558	381
Total	$ 2,868	$ 1,997	$ 5,696	$ 4,889
Income (Loss) from Operations				
United States	$ (1,970)	$ (597)	$ (1,468)	$ (3,942)
Canada	11,840	9,919	23,365	18,682
Europe	(2,007)	(3,218)	(3,472)	(4,079)
Asia-Pacific	7,931	3,216	7,888	6,986
Wholesale	(528)	(1,068)	(1,296)	(1,669)
Total	$ 15,266	$ 8,252	$ 25,017	$ 15,978
Capital Expenditures				
United States	$ 330	$ 545	$ 690	$ 829
Canada	3,181	5,029	5,323	9,337
Europe	214	2,247	680	2,529
Asia-Pacific	4,017	2,830	7,906	4,346
Total	$ 7,742	$ 10,651	$ 14,599	$ 17,041

The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

	June 30, 2008	December 31, 2007
Property and Equipment Net		
United States		
United States	$ 16,731	$ 18,430
Other	693	597
Total United States	17,424	19,027
Canada		
Canada	53,752	54,787
Total Canada	53,752	54,787
Europe		
United Kingdom	8,221	8,718
Germany	640	700
Other	1,073	970
Total Europe	9,934	10,388
Asia-Pacific		

Australia	66,484	60,233
Other	159	164
Total Asia-Pacific	66,643	60,397
Total	$ 147,753	$ 144,599

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	June 30, 2008	December 31, 2007
Assets		
United States		
United States	$ 41,687	$ 71,782
Other	5,636	5,429
Total United States	47,323	77,211
Canada		
Canada	148,762	166,817
Total Canada	148,762	166,817
Europe		
United Kingdom	28,117	21,434
Germany	6,028	5,803
Other	51,330	52,428
Total Europe	85,475	79,665
Asia-Pacific		
Australia	141,484	132,948
Other	3,882	3,762
Total Asia-Pacific	145,366	136,710
Total	$ 426,926	$ 460,403

The Company offers three main products voice, data/Internet and VOIP in all of its segments. Net revenue information with respect to the Company s products is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Voice	$ 148,756	$ 151,545	$ 292,513	$ 304,308
Data/Internet	48,977	44,870	96,392	88,149
VOIP	38,729	30,015	73,637	59,976
Total	$ 236,462	$ 226,430	$ 462,542	$ 452,433

10. DISCONTINUED OPERATIONS

During the second quarter 2008, the Company determined to sell its German retail operations, and therefore, is reporting this unit as discontinued operations.

In August 2007, the Company sold its 51% interest in its German telephone installation system subsidiaries. The sale price was $0.8 million (0.6 million Euros), which included $0.5 million (0.4 million Euros) in cash and $0.3 million (0.2 million Euros) for payment of outstanding intercompany debt. For the intercompany debt payment, the Company received $0.1 million (0.1 million Euros) in cash at closing. The balance owing is represented by a note receivable and will be paid in fifteen equal monthly installment payments. As a result, the Company recorded a $0.2 million gain from sale of assets. Net assets held for sale were $0.6 million at the closing date.

In February 2007, the Company sold its Australian domain name registry and web hosting subsidiary, Planet Domain. The sale price was $6.5 million ($8.3 million AUD). The Company received $5.5 million in net cash proceeds from the transaction after closing adjustments. As a result, the Company recorded a $6.0 million gain from sale of assets. The net assets of Planet Domain were $0.2 million at the closing date.

As a result of these events, the Company s consolidated financial statements reflect the German retail operations, discontinued German subsidiary and Planet Domain operations as discontinued operations for the three and six months ended June 30, 2008 and 2007. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income from discontinued operations.

Summarized operating results of German retail operations, the discontinued German subsidiary and Planet Domain operations for the three and six months ended June 30, 2008 and 2007 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net revenues	$ 475	$ 2,172	$ 996	$ 4,726
Operating expenses	566	2,328	1,176	4,979
Loss from operations	(91)	(156)	(180)	(253)
Interest expense		(10)		(16)
Interest income and other income				3
Loss from discontinued operations	$ (91)	$ (166)	$ (180)	$ (266)

11. BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share is calculated by dividing income (loss) attributable to common stockholders by the weighted average common shares outstanding during the period.

Diluted income per common share adjusts basic income per common share for the effects of potentially dilutive common share equivalents. Potentially dilutive common shares primarily include the dilutive effects of common shares issuable under the Company s stock option compensation plans computed using the treasury stock method and the dilutive effects of shares issuable upon conversion of its 5% Exchangeable Senior Notes, the Step Up Convertible Subordinated Debentures, the 3 $^{3}/4$% Convertible Senior Notes and the 2000 Convertible Subordinated Debentures.

For the three months ended June 30, 2008, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

8.0 million shares issuable upon exercise of stock options.

For the six months ended June 30, 2008, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

8.0 million shares issuable upon exercise of stock options, and

7.2 million shares issuable upon conversion of the 3 $^{3}/4$% Convertible Senior Notes.

For the three months ended June 30, 2007, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

6.8 million shares issuable upon exercise of stock options, and

8.3 million shares issuable upon conversion of the 3 $^{3}/4$% Convertible Senior Notes.

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For the six months ended June 30, 2007, the following could potentially dilute income per common share in the future but were excluded from the calculation of diluted income per common share due to their antidilutive effects:

7.4 million shares issuable upon exercise of stock options,

8.3 million shares issuable upon conversion of the 3 3/4% Convertible Senior Notes, and

0.1 million shares issuable upon conversion of the 2000 Convertible Subordinated Debentures.

A reconciliation of basic income per common share to diluted income per common share is below (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Income from continuing operations	$ 46,615	$ 12,267	$ 43,705	$ 3,767
Loss from discontinued operations, net of tax	(91)	(166)	(180)	(266)
Gain from sale of discontinued operations, net of tax				5,958
Income attributable to common stockholders basic	46,524	12,101	43,525	9,459
Adjustment for interest expense on Step Up Convertible Subordinated Debentures	231	477	874	976
Adjustment for interest expense on 3 3/4% Convertible Senior Notes	741			
Income attributable to common stockholders diluted	$ 47,496	$ 12,578	$ 44,399	$ 10,435
Weighted average common shares outstanding basic	142,633	115,715	142,633	114,928
In-the-money options exercisable under stock option compensation plans		27		10
5% Exchangeable Senior Notes	34,261	46,936	40,598	46,936
Step Up Convertible Subordinated Debentures	7,280	22,041	11,990	22,593
3 3/4% Convertible Senior Notes	6,154			
Weighted average common shares outstanding diluted	190,328	184,719	195,221	184,467
Basic income (loss) per common share:				
Income from continuing operations	$ 0.33	$ 0.11	$ 0.31	$ 0.03
Loss from discontinued operations	(0.00)	(0.01)	(0.00)	(0.00)
Gain from sale of discontinued operations				0.05
Net income	$ 0.33	$ 0.10	$ 0.31	$ 0.08
Diluted income (loss) per common share:				
Income from continuing operations	$ 0.25	$ 0.07	$ 0.23	$ 0.02
Loss from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Gain from sale of discontinued operations				0.04
Net income	$ 0.25	$ 0.07	$ 0.23	$ 0.06

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12. GUARANTOR/NON-GUARANTOR CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Subsequent to the issuance of the 2007 consolidated financial statements, the Company determined that its 2007 disclosures of consolidating financial information incorrectly excluded the intercompany interest and related accrued intercompany receivables and payables that resulted from three intercompany loans between IHC, PTGI and PTHI. The effects of this correction on the 2007 consolidating condensed financial statements are shown in the table below. The consolidating condensed statements of operations for the three months and six months ended June 30, 2007, the consolidating condensed statements of cash flows for the six months ended June 30, 2007, and the consolidating condensed balance sheets at December 31, 2007 contained herein have been restated to include the effects of the adjustments shown in the tables below as increases (decreases) in the effected line items to reflect correctly intercompany interest charged by IHC to PTGI and PTHI on intercompany notes issued in 2007. The effects of this correction on the consolidating condensed statements of operations and cash flows for the year ended December 31, 2007 and the quarter ended September 30, 2007 will be presented in future filings.

	PTGI	PTHI	Other	PTGI	PTHI	Other
	For the six months ended June 30, 2007			For the year ended December 31, 2007		
Statements of Operations:						
Intercompany interest	$ (1,633)	$ (2,782)	$ 4,415	$ (4,037)	$ (7,881)	$ 11,918
Equity in net income (loss) of subsidiaries	$ 1,633	$ 4,415	$	$ 4,037	$ 11,918	$
Net income	$	$ 1,633	$ 4,415	$	$ 4,037	$ 11,918
Statements of Cash Flows:						
Net cash used in operating activities	$ (1,633)	$ (2,782)	$ 4,415	$ (4,037)	$ (7,881)	$ 11,918
Net cash provided by investing activities	1,633	2,782		4,037	7,881	
Net cash provided by (used in) financing activities			(4,415)			(11,918)
Net change in cash and cash equivalents	$	$	$	$	$	$

	PTGI	PTHI	Other
	December 31, 2007		
Balance sheets:			
Investment in subsidiaries	$ 4,037	$ 11,918	$
Intercompany payable	$ 4,037	$ 7,881	$ (11,918)
Total stockholders equity (deficit)	$	$ 4,037	$ 11,918

	PTGI	IHC	Guarantor Subsidiaries	PTGI	IHC	Guarantor Subsidiaries
	For the six months ended June 30, 2007			For the year ended December 31, 2007		
Statements of Operations:						
Intercompany interest	$ (1,633)	$ 4,415	$ (2,782)	$ (4,037)	$ 11,918	$ (7,881)
Equity in net income (loss) of subsidiaries	$ 1,633	$	$ 4,415	$ 4,037	$	$ 11,918
Net income	$	$ 4,415	$ 1,633	$	$ 11,918	$ 4,037
Statements of Cash Flows:						
Net cash used in operating activities	$ (1,633)	$ 4,415	$ (2,782)	$ (4,037)	$ 11,918	$ (7,881)
Net cash provided by investing activities	1,633		2,782	4,037		7,881
Net cash provided by (used in) financing activities		(4,415)			(11,918)	
Net change in cash and cash equivalents	$	$	$	$	$	$

	PTGI	IHC	Guarantor Subsidiaries
	December 31, 2007		
Balance sheets:			
Intercompany receivable	$	$ 11,918	$
Investment in subsidiaries	$ 4,037	$	$ 11,918

Intercompany payable	$ 4,037	$	$ 7,881
Total stockholders equity (deficit)	$	$ 11,918	$ 4,037

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In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company s consolidated financial statements.

The consolidating condensed statement of cash flows for the six months ended June 30, 2007 has been restated to correct the presentation of transactions that are settled, on a net basis, through the Company s intercompany payables and receivables between PTGI (parent) and its subsidiaries and between PTHI and its subsidiaries. The Company had previously presented all such transactions as operating activities. Certain of these transactions should have been presented as investing and financing activities. Accordingly, the previous presentation of the statements of cash flows for the six months ended June 30, 2007 as contained in this Note have been corrected to add the lines entitled Proceeds from intercompany balance to cash flows from investing activities and Proceeds from (payments on) intercompany balance to cash flows from financing activities. In each consolidating presentation, the above described changes are completely offset by corresponding increases in the elimination entries. Accordingly, these changes have no effect on the Company s consolidated financial statements.

Consolidating Financial Statements for PTHI Debt Issuances

PTHI s 8% Senior Notes and 5% Exchangeable Senior Notes are fully and unconditionally guaranteed by PTGI on a senior basis as of June 30, 2008. PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of June 30, 2008 and December 31, 2007 and for three months and six months ended June 30, 2008 and June 30, 2007 are included for (a) PTGI on a stand-alone basis; (b) PTHI on a stand-alone basis; (c) PTGI s indirect non-guarantor subsidiaries on a combined basis; and (d) PTGI on a consolidated basis.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended June 30, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 236,462	$	$ 236,462
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			142,739		142,739
Selling, general and administrative	1,302	1,881	67,064		70,247
Depreciation and amortization			8,095		8,095
Loss on sale or disposal of assets			115		115
Total operating expenses	1,302	1,881	218,013		221,196
INCOME (LOSS) FROM OPERATIONS	(1,302)	(1,881)	18,449		15,266
INTEREST EXPENSE	(1,391)	(6,891)	(5,272)		(13,554)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(137)		354		217
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	9,861	22,784	(468)		32,177
INTEREST AND OTHER INCOME	5		1,987		1,992
FOREIGN CURRENCY TRANSACTION GAIN	1,399	103	6,632		8,134
INTERCOMPANY INTEREST	(4,815)	210	4,605		
MANAGEMENT FEE		1,048	(1,048)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,620	15,373	25,239		44,232
INCOME TAX BENEFIT	294	1,558	531		2,383
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,914	16,931	25,770		46,615
EQUITY IN NET INCOME OF SUBSIDIARIES	42,610	25,679		(68,289)	
INCOME FROM CONTINUING OPERATIONS	46,524	42,610	25,770	(68,289)	46,615
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(91)		(91)
NET INCOME	$ 46,524	$ 42,610	$ 25,679	$ (68,289)	$ 46,524

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Months Ended June 30, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 462,542	$	$ 462,542
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			284,518		284,518
Selling, general and administrative	2,574	3,609	133,233		139,416
Depreciation and amortization			16,056		16,056
Gain on sale or disposal of assets			(2,465)		(2,465)
Total operating expenses	2,574	3,609	431,342		437,525
INCOME (LOSS) FROM OPERATIONS	(2,574)	(3,609)	31,200		25,017
INTEREST EXPENSE	(3,308)	(14,801)	(10,638)		(28,747)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(512)		699		187
GAIN (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,070	22,784	(367)		34,487
INTEREST AND OTHER INCOME	15		2,942		2,957
FOREIGN CURRENCY TRANSACTION GAIN	2,695	472	6,674		9,841
INTERCOMPANY INTEREST	(5,162)	(3,183)	8,345		
MANAGEMENT FEE		2,991	(2,991)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,224	4,654	35,864		43,742
INCOME TAX BENEFIT (EXPENSE)	210	1,087	(1,334)		(37)
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,434	5,741	34,530		43,705
EQUITY IN NET INCOME OF SUBSIDIARIES	40,091	34,350		(74,441)	
INCOME FROM CONTINUING OPERATIONS	43,525	40,091	34,530	(74,441)	43,705
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(180)		(180)
NET INCOME	$ 43,525	$ 40,091	$ 34,350	$ (74,441)	$ 43,525

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended June 30, 2007				
	PTGI	PTHI	Other	Eliminations	Consolidated
NET REVENUE	$	$	$ 226,430	$	$ 226,430
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			141,643		141,643
Selling, general and administrative	1,242	2,939	64,335		68,516
Depreciation and amortization			7,343		7,343
Loss on sale or disposal of assets			676		676
Total operating expenses	1,242	2,939	213,997		218,178
INCOME (LOSS) FROM OPERATIONS	(1,242)	(2,939)	12,433		8,252
INTEREST EXPENSE	(2,406)	(7,987)	(6,031)		(16,424)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(391)		315		(76)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,311)	(4)			(2,315)
INTEREST AND OTHER INCOME	48		1,010		1,058
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(2,103)	2,877	14,307		15,081
INTERCOMPANY INTEREST	(1,125)	(4,923)	6,048		
MANAGEMENT FEE		1,244	(1,244)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,530)	(11,732)	26,838		5,576
INCOME TAX BENEFIT (EXPENSE)	2,397	(221)	4,515		6,691
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(7,133)	(11,953)	31,353		12,267
EQUITY IN NET INCOME OF SUBSIDIARIES	19,234	31,187		(50,421)	
INCOME FROM CONTINUING OPERATIONS	12,101	19,234	31,353	(50,421)	12,267
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(166)		(166)
NET INCOME	$ 12,101	$ 19,234	$ 31,187	$ (50,421)	$ 12,101

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Months Ended June 30, 2007				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 452,433	$	$ 452,433
OPERATING EXPENSES					
Cost of revenue (exclusive of depreciation included below)			285,659		285,659
Selling, general and administrative	2,498	6,656	127,058		136,212
Depreciation and amortization			13,900		13,900
Loss on sale or disposal of assets			684		684
Total operating expenses	2,498	6,656	427,301		436,455
INCOME (LOSS) FROM OPERATIONS	(2,498)	(6,656)	25,132		15,978
INTEREST EXPENSE	(5,803)	(15,799)	(8,256)		(29,858)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(791)		417		(374)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,311)	(4)	(5,959)		(8,274)
INTEREST AND OTHER INCOME	334		2,220		2,554
FOREIGN CURRENCY TRANSACTION GAIN	3,848	455	13,752		18,055
INTERCOMPANY INTEREST	(673)	(5,184)	5,857		
MANAGEMENT FEE		3,257	(3,257)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,894)	(23,931)	29,906		(1,919)
INCOME TAX BENEFIT (EXPENSE)	2,472	(221)	3,435		5,686
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,422)	(24,152)	33,341		3,767
EQUITY IN NET INCOME OF SUBSIDIARIES	14,881	39,033		(53,914)	
INCOME FROM CONTINUING OPERATIONS	9,459	14,881	33,341	(53,914)	3,767
LOSS FROM DISCONTINUED OPERATIONS, net of tax			(266)		(266)
GAIN FROM SALE OF DISCONTINUED OPERATIONS, net of tax			5,958		5,958
NET INCOME	$ 9,459	$ 14,881	$ 39,033	$ (53,914)	$ 9,459

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	June 30, 2008				
	PTGI	PTHI	Other	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 4,810	$ (73)	$ 50,813	$	$ 55,550
Restricted cash					
Accounts receivable			118,412		118,412
Prepaid expenses and other current assets	123	4	19,343		19,470
Total current assets	4,933	(69)	188,568		193,432
INTERCOMPANY RECEIVABLES	96,854	1,071,411		(1,168,265)	
INVESTMENTS IN SUBSIDIARIES	41,447	(619,846)		578,399	
RESTRICTED CASH			10,782		10,782
PROPERTY AND EQUIPMENT Net			147,753		147,753
GOODWILL			40,539		40,539
OTHER INTANGIBLE ASSETS Net			989		989
OTHER ASSETS	527	5,163	27,741		33,431
TOTAL ASSETS	$ 143,761	$ 456,659	$ 416,372	$ (589,866)	$ 426,926
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 359	$ 168	59,807	$	$ 60,334
Accrued interconnection costs			49,396		49,396
Deferred revenue			15,839		15,839
Accrued expenses and other current liabilities	274	997	52,247		53,518
Accrued income taxes	85		26,237		26,322
Accrued interest	1,173	8,468	1,550		11,191
Current portion of long-term obligations		2,168	7,133		9,301
Total current liabilities	1,891	11,801	212,209		225,901
INTERCOMPANY PAYABLES	493,361	97,123	577,781	(1,168,265)	
LONG-TERM OBLIGATIONS (net of premium of $4,452)	56,440	306,288	246,148		608,876
OTHER LIABILITIES			80		80
Total liabilities	551,692	415,212	1,036,218	(1,168,265)	834,857
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,426				1,426
Additional paid-in capital	718,827	1,161,930	305,844	(1,467,774)	718,827
Accumulated deficit	(1,031,253)	(1,024,352)	(838,264)	1,862,616	(1,031,253)
Accumulated other comprehensive loss	(96,931)	(96,131)	(87,426)	183,557	(96,931)
Total stockholders equity (deficit)	(407,931)	41,447	(619,846)	578,399	(407,931)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 143,761	$ 456,659	$ 416,372	$ (589,866)	$ 426,926

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

			December 31, 2007		
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,299	$ (35)	$ 80,018	$	$ 81,282
Restricted cash			362		362
Accounts receivable			113,588		113,588
Prepaid expenses and other current assets	308		28,352		28,660
Total current assets	1,607	(35)	222,320		223,892
INTERCOMPANY RECEIVABLES	88,536	1,089,076		(1,177,612)	
INVESTMENTS IN SUBSIDIARIES	5,404	(650,148)		644,744	
RESTRICTED CASH			9,677		9,677
PROPERTY AND EQUIPMENT Net			144,599		144,599
GOODWILL			40,134		40,134
OTHER INTANGIBLE ASSETS Net			1,557		1,557
OTHER ASSETS	2,389	7,095	31,060		40,544
TOTAL ASSETS	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Accounts payable	$ 805	$ 407	73,681	$	$ 74,893
Accrued interconnection costs			44,911		44,911
Deferred revenue			16,513		16,513
Accrued expenses and other current liabilities	207	1,225	52,988		54,420
Accrued income taxes	306	1,522	28,963		30,791
Accrued interest	2,388	8,701	1,371		12,460
Current portion of long-term obligations		3,816	7,412		11,228
Total current liabilities	3,706	15,671	225,839		245,216
INTERCOMPANY PAYABLES	424,978	33,116	719,518	(1,177,612)	
LONG-TERM OBLIGATIONS (net of premium of $2,528)	116,792	391,797	154,086		662,675
OTHER LIABILITIES			52		52
Total liabilities	545,476	440,584	1,099,495	(1,177,612)	907,943
COMMITMENTS AND CONTINGENCIES					
STOCKHOLDERS EQUITY (DEFICIT):					
Common stock	1,426				1,426
Additional paid-in capital	718,695	1,161,930	305,844	(1,467,774)	718,695
Accumulated deficit	(1,074,778)	(1,064,443)	(872,614)	1,937,057	(1,074,778)
Accumulated other comprehensive loss	(92,883)	(92,083)	(83,378)	175,461	(92,883)
Total stockholders equity (deficit)	(447,540)	5,404	(650,148)	644,744	(447,540)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 97,936	$ 445,988	$ 449,347	$ (532,868)	$ 460,403

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Six Months Ended June 30, 2008				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 43,525	$ 40,091	$ 34,350	$ (74,441)	$ 43,525
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for doubtful accounts receivable			5,696		5,696
Stock compensation expense		132			132
Depreciation and amortization			16,056		16,056
Gain on sale or disposal of assets			(2,465)		(2,465)
Accretion of debt (premium) discount	512		(699)		(187)
Equity in net income of subsidiary	(40,091)	(34,350)		74,441	
Deferred income taxes		450	2,395		2,845
Gain (loss) on early extinguishment or restructuring of debt	(12,070)	(22,784)	367		(34,487)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(2,684)	(487)	(6,457)		(9,628)
Changes in assets and liabilities, net of acquisitions:					
Increase in accounts receivable			(6,388)		(6,388)
(Increase) decrease in prepaid expenses and other current assets	185	(4)	11,053		11,234
(Increase) decrease in other assets	388	579	(62)		905
Decrease in accounts payable	(447)	(239)	(15,953)		(16,639)
Increase in accrued interconnection costs			3,159		3,159
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, and other liabilities	67	(235)	(2,911)		(3,079)
Decrease in accrued income taxes	(222)	(1,522)	(2,711)		(4,455)
Increase (decrease) in accrued interest	(871)	(223)	173		(921)
Net cash provided by (used in) operating activities	(11,708)	(18,592)	35,603		5,303
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(14,599)		(14,599)
Sale of property and equipment			805		805
Cash from disposition of business, net of cash disposed			1,676		1,676
Cash used in business acquisitions, net of cash acquired			(34)		(34)
Decrease in restricted cash			103		103
Proceeds from intercompany balance	27,636	17,339		(44,975)	
Net cash provided by (used in) investing activities	27,636	17,339	(12,049)	(44,975)	(12,049)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of the Company s debt securities	(11,217)				(11,217)
Principal payments on long-term obligations	(1,200)	(5,232)	(1,855)		(8,287)
Proceeds from (payments on) intercompany balance		6,447	(51,422)	44,975	
Net cash provided by (used in) financing activities	(12,417)	1,215	(53,277)	44,975	(19,504)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			518		518

NET CHANGE IN CASH AND CASH EQUIVALENTS		3,511		(38)		(29,205)		(25,732)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,299		(35)		80,018		81,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	4,810	$	(73)	$	50,813	$	$ 55,550

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Six Months Ended June 30, 2007				
	PTGI	**PTHI**	**Other**	**Eliminations**	**Consolidated**
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 9,459	$ 14,881	$ 39,033	$ (53,914)	$ 9,459
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for doubtful accounts receivable			4,885		4,885
Stock compensation expense		125			125
Depreciation and amortization			13,946		13,946
Gain on sale or disposal of assets			(5,078)		(5,078)
Accretion of debt (premium) discount	791		(417)		374
Equity in net income of subsidiary	(14,881)	(39,033)		53,914	
Loss on early extinguishment or restructuring of debt	2,311	4	5,959		8,274
Unrealized foreign currency transaction gain on intercompany and foreign debt	(7,550)	(2,194)	(9,763)		(19,507)
Changes in assets and liabilities, net of acquisitions:					
Decrease in accounts receivable			1,028		1,028
Decrease in prepaid expenses and other current assets	93		1,960		2,053
(Increase) decrease in other assets	460	488	(1,054)		(106)
Increase (decrease) in accounts payable	(287)	3	(272)		(556)
Decrease in accrued interconnection costs			(4,645)		(4,645)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	(3,242)	1,081	(1,754)		(3,915)
Increase (decrease) in accrued interest	(1,581)	(97)	649		(1,029)
Net cash provided by (used in) operating activities	(14,427)	(24,742)	44,477		5,308
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of property and equipment			(17,041)		(17,041)
Cash from disposition of business, net of cash disposed			5,527		5,527
Decrease in restricted cash			596		596
Proceeds from intercompany balance	69,530	40,325		(109,855)	
Net cash provided by (used in) investing activities	69,530	40,325	(10,918)	(109,855)	(10,918)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of long-term obligations			109,275		109,275
Deferred financing costs			(6,570)		(6,570)
Principal payments on long-term obligations	(54,882)	(479)	(2,818)		(58,179)
Payment on intercompany balance		(15,097)	(94,758)	109,855	
Net cash provided by (used in) financing activities	(54,882)	(15,576)	5,129	109,855	44,526
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			1,451		1,451
NET CHANGE IN CASH AND CASH EQUIVALENTS	221	7	40,139		40,367
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,764	(28)	60,581		64,317

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,985	$ (21)	$ 100,720	$	$ 104,684

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Consolidating Financial Statements for IHC Debt Issuance

Primus Telecommunications IHC, Inc. s 14¼% Senior Secured Notes are fully, unconditionally, jointly and severally guaranteed by PTGI on a senior basis as of June 30, 2008 and by PTHI, Primus Telecommunications, Inc., TresCom International Inc., Least Cost Routing, Inc., TresCom U.S.A., Inc., iPRIMUS USA, Inc., and iPRIMUS.com, Inc., 100% owned subsidiaries of PTGI (collectively, the Other Guarantors). PTGI has a 100% ownership in PTHI and no direct subsidiaries other than PTHI. Accordingly, the following consolidating condensed financial information as of June 30, 2008 and December 31, 2007 and for three months and six months ended June 30, 2008 and June 30, 2007 are included for (a) PTGI on a stand-alone basis; (b) Primus Telecommunications IHC, Inc. (IHC) on a stand-alone basis; (c) the Other Guarantor subsidiaries on a combined basis; (d) PTGI s indirect non-guarantor subsidiaries on a combined basis and (e) PTGI on a consolidated basis.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries eliminate investments in subsidiaries, intercompany balances and intercompany transactions.

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For Three Months Ended June 30, 2008					
	PTGI	**IHC**	**Guarantor Subsidiaries**	**Non Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 34,664	$ 201,798	$	$ 236,462
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			28,027	114,712		142,739
Selling, general and administrative	1,302	83	9,230	59,632		70,247
Depreciation and amortization			815	7,280		8,095
(Gain) loss on sale or disposal of assets			(5)	120		115
Total operating expenses	1,302	83	38,067	181,744		221,196
INCOME (LOSS) FROM OPERATIONS	(1,302)	(83)	(3,403)	20,054		15,266
INTEREST EXPENSE	(1,391)	(3,932)	(6,894)	(1,337)		(13,554)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(137)	354				217
INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	9,861	(468)	22,784			32,177
INTEREST AND OTHER INCOME	5		2	1,985		1,992
FOREIGN CURRENCY TRANSACTION GAIN	1,399	2,762	116	3,857		8,134
INTERCOMPANY INTEREST	(4,815)	169	210	4,436		
MANAGEMENT FEE			1,146	(1,146)		
ROYALTY FEE		3,549	136	(3,685)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,620	2,351	14,097	24,164		44,232
INCOME TAX BENEFIT	294	935	1,129	25		2,383
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,914	3,286	15,226	24,189		46,615
EQUITY IN NET INCOME OF SUBSIDIARIES	42,610		25,679		(68,289)	
INCOME FROM CONTINUING OPERATIONS	46,524	3,286	40,905	24,189	(68,289)	46,615
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(91)		(91)
NET INCOME	$ 46,524	$ 3,286	$ 40,905	$ 24,098	$ (68,289)	$ 46,524

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For Six Months Ended June 30, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 69,697	$ 392,845	$	$ 462,542
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			55,590	228,928		284,518
Selling, general and administrative	2,574	118	18,076	118,648		139,416
Depreciation and amortization			1,681	14,375		16,056
Loss on sale or disposal of assets			(805)	(1,660)		(2,465)
Total operating expenses	2,574	118	74,542	360,291		437,525
INCOME (LOSS) FROM OPERATIONS	(2,574)	(118)	(4,845)	32,554		25,017
INTEREST EXPENSE	(3,308)	(7,804)	(14,972)	(2,663)		(28,747)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(512)	699				187
INCOME (LOSS) ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	12,070	(475)	22,784	108		34,487
INTEREST AND OTHER INCOME	15		(5)	2,947		2,957
FOREIGN CURRENCY TRANSACTION GAIN	2,695	3,488	514	3,144		9,841
INTERCOMPANY INTEREST	(5,162)	5,859	(3,183)	2,486		
MANAGEMENT FEE			3,251	(3,251)		
ROYALTY FEE		7,306		(7,306)		
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	3,224	8,955	3,544	28,019		43,742
INCOME TAX BENEFIT (EXPENSE)	210	470	625	(1,342)		(37)
INCOME BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	3,434	9,425	4,169	26,677		43,705
EQUITY IN NET INCOME OF SUBSIDIARIES	40,091		34,350		(74,441)	
INCOME FROM CONTINUING OPERATIONS	43,525	9,425	38,519	26,677	(74,441)	43,705
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(180)		(180)
NET INCOME	$ 43,525	$ 9,425	$ 38,519	$ 26,497	$ (74,441)	$ 43,525

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Three Months Ended June 30, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$	$	$ 35,232	$ 191,198	$	$ 226,430
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			24,321	117,322		141,643
Selling, general and administrative	1,242	21	11,704	55,549		68,516
Depreciation and amortization			929	6,414		7,343
Loss on sale or disposal of assets				676		676
Total operating expenses	1,242	21	36,954	179,961		218,178
INCOME (LOSS) FROM OPERATIONS	(1,242)	(21)	(1,722)	11,237		8,252
INTEREST EXPENSE	(2,406)	(3,556)	(7,990)	(2,472)		(16,424)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(391)			315		(76)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,311)		(4)			(2,315)
INTEREST AND OTHER INCOME	48		12	998		1,058
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	(2,103)	3,728	2,902	10,554		15,081
INTERCOMPANY INTEREST	(1,125)	3,013	(4,923)	3,035		
MANAGEMENT FEE			1,381	(1,381)		
ROYALTY FEE		3,583	(148)	(3,435)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(9,530)	6,747	(10,492)	18,851		5,576
INCOME TAX BENEFIT (EXPENSE)	2,397	(773)	(315)	5,382		6,691
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(7,133)	5,974	(10,807)	24,233		12,267
EQUITY IN NET INCOME OF SUBSIDIARIES	19,234		31,187		(50,421)	
INCOME FROM CONTINUING OPERATIONS	12,101	5,974	20,380	24,233	(50,421)	12,267
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(166)		(166)
NET INCOME	$ 12,101	$ 5,974	$ 20,380	$ 24,067	$ (50,421)	$ 12,101

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

(in thousands)

	For the Six Months Ended June 30, 2007					
	PTGI	**IHC**	**Guarantor Subsidiaries**	**Non Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
NET REVENUE	$	$	$ 73,996	$ 378,437	$	$ 452,433
OPERATING EXPENSES						
Cost of revenue (exclusive of depreciation included below)			53,105	232,554		285,659
Selling, general and administrative	2,498	54	23,191	110,469		136,212
Depreciation and amortization			1,896	12,004		13,900
Loss on sale or disposal of assets			8	676		684
Total operating expenses	2,498	54	78,200	355,703		436,455
INCOME (LOSS) FROM OPERATIONS	(2,498)	(54)	(4,204)	22,734		15,978
INTEREST EXPENSE	(5,803)	(4,311)	(15,805)	(3,939)		(29,858)
ACCRETION ON DEBT PREMIUM (DISCOUNT)	(791)			417		(374)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(2,311)	(5,050)	(4)	(909)		(8,274)
INTEREST AND OTHER INCOME	334		29	2,191		2,554
FOREIGN CURRENCY TRANSACTION GAIN	3,848	4,486	486	9,235		18,055
INTERCOMPANY INTEREST	(673)	4,229	(5,184)	1,628		
MANAGEMENT FEE			3,522	(3,522)		
ROYALTY FEE		7,145	(297)	(6,848)		
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF SUBSIDIARIES	(7,894)	6,445	(21,457)	20,987		(1,919)
INCOME TAX BENEFIT (EXPENSE)	2,472	(1,023)	(409)	4,646		5,686
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF SUBSIDIARIES	(5,422)	5,422	(21,866)	25,633		3,767
EQUITY IN NET INCOME OF SUBSIDIARIES	14,881		39,033		(53,914)	
INCOME FROM CONTINUING OPERATIONS	9,459	5,422	17,167	25,633	(53,914)	3,767
LOSS FROM DISCONTINUED OPERATIONS, net of tax				(266)		(266)
GAIN ON SALE OF DISCONTINUED OPERATIONS, net of tax				5,958		5,958
NET INCOME	$ 9,459	$ 5,422	$ 17,167	$ 31,325	$ (53,914)	$ 9,459

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	June 30 , 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 4,810	$	$ 243	$ 50,497	$	$ 55,550
Accounts receivable			14,272	104,140		118,412
Prepaid expenses and other current assets	123		1,150	18,197		19,470
Total current assets	4,933		15,665	172,834		193,432
INTERCOMPANY RECEIVABLES	96,854	297,296	593,089	63,453	(1,050,692)	
INVESTMENTS IN SUBSIDIARIES	41,447		(45,071)		3,624	
RESTRICTED CASH			314	10,468		10,782
PROPERTY AND EQUIP MENT Net			14,650	133,103		147,753
GOODWILL				40,539		40,539
OTHER INTANGIBLE ASSETS Net				989		989
OTHER ASSETS	527	272	6,250	26,382		33,431
TOTAL ASSETS	$ 143,761	$ 297,568	$ 584,897	$ 447,768	$ (1,047,068)	$ 426,926
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 359	$	$ 4,403	$ 55,572	$	$ 60,334
Accrued interconnection costs			17,556	31,840		49,396
Deferred revenue			1,069	14,770		15,839
Accrued expenses and other current liabilities	274	460	6,648	46,136		53,518
Accrued income taxes	85	3,946	1,007	21,284		26,322
Accrued interest	1,173	1,387	8,468	163		11,191
Current portion of long-term obligations			2,260	7,041		9,301
Total current liabilities	1,891	5,793	41,411	176,806		225,901
INTERCOMPANY PAYABLES	493,361		195,601	361,730	(1,050,692)	
LONG-TERM OBLIGATIONS	56,440	206,744	306,438	39,254		608,876
OTHER LIABILITIES				80		80
Total liabilities	551,692	212,537	543,450	577,870	(1,050,692)	834,857
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Common stock	1,426					1,426
Additional paid-in capital	718,827		1,161,930	306,227	(1,468,157)	718,827
Retained earnings (accumulated deficit)	(1,031,253)	85,031	(1,024,352)	(344,158)	1,283,479	(1,031,253)
Accumulated other comprehensive loss	(96,931)		(96,131)	(92,171)	188,302	(96,931)
Total stockholders equity (deficit)	(407,931)	85,031	41,447	(130,102)	3,624	(407,931)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 143,761	$ 297,568	$ 584,897	$ 447,768	$ (1,047,068)	$ 426,926

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED BALANCE SHEET

(in thousands)

	December 31, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 1,299	$	$ 670	$ 79,313	$	$ 81,282
Restricted cash				362		362
Accounts receivable			14,002	99,586		113,588
Prepaid expenses and other current assets	308		1,255	27,097		28,660
Total current assets	1,607		15,927	206,358		223,892
INTERCOMPANY RECEIVABLES	88,536	195,254	601,606	18,779	(904,175)	
INVESTMENTS IN SUBSIDIARIES	5,404		(76,945)		71,541	
RESTRICTED CASH			314	9,363		9,677
PROPERTY AND EQUIPMENT Net			15,881	128,718		144,599
GOODWILL				40,134		40,134
OTHER INTANGIBLE ASSETS Net				1,557		1,557
OTHER ASSETS	2,389	283	8,261	29,611		40,544
TOTAL ASSETS	$ 97,936	$ 195,537	$ 565,044	$ 434,520	$ (832,634)	$ 460,403
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable	$ 805	$	$ 4,889	$ 69,199	$	$ 74,893
Accrued interconnection costs			15,200	29,711		44,911
Deferred revenue			969	15,544		16,513
Accrued expenses and other current liabilities	207		8,458	45,755		54,420
Accrued income taxes	306	4,656	2,278	23,551		30,791
Accrued interest	2,388	1,328	8,701	43		12,460
Current portion of long-term obligations			3,908	7,320		11,228
Total current liabilities	3,706	5,984	44,403	191,123		245,216
INTERCOMPANY PAYABLES	424,978		123,276	355,921	(904,175)	
LONG-TERM OBLIGATIONS	116,792	113,947	391,961	39,975		662,675
OTHER LIABILITIES				52		52
Total liabilities	545,476	119,931	559,640	587,071	(904,175)	907,943
COMMITMENTS AND CONTINGENCIES						
STOCKHOLDERS EQUITY (DEFICIT):						
Common stock	1,426					1,426
Additional paid-in capital	718,695		1,161,930	305,937	(1,467,867)	718,695
Retained earnings (accumulated deficit)	(1,074,778)	75,606	(1,064,443)	(370,365)	1,359,202	(1,074,778)
Accumulated other comprehensive loss	(92,883)		(92,083)	(88,123)	180,206	(92,883)
Total stockholders equity (deficit)	(447,540)	75,606	5,404	(152,551)	71,541	(447,540)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$ 97,936	$ 195,537	$ 565,044	$ 434,520	$ (832,634)	$ 460,403

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For Six Months Ended June 30, 2008					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 43,525	$ 9,425	$ 38,519	$ 26,497	$ (74,441)	$ 43,525
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for doubtful accounts receivable			1,132	4,564		5,696
Stock compensation expense			132			132
Depreciation and amortization			1,681	14,375		16,056
Gain on sale or disposal of assets			(805)	(1,660)		(2,465)
Accretion of debt (premium) discount	512	(699)				(187)
Equity in net (income) loss of subsidiary	(40,091)		(34,350)		74,441	
Deferred income taxes			591	2,254		2,845
(Gain) loss on early extinguishment or restructuring of debt	(12,070)	475	(22,784)	(108)		(34,487)
Unrealized foreign currency transaction gain on intercompany and foreign debt	(2,684)	(3,249)	(487)	(3,208)		(9,628)
Changes in assets and liabilities, net of acquisitions:						
Increase in accounts receivable			(1,403)	(4,985)		(6,388)
Decrease in prepaid expenses and other current assets	185		106	10,943		11,234
(Increase) decrease in other assets	388	11	518	(12)		905
(Increase) decrease in intercompany balance		(4,499)	(6,218)	10,717		
Decrease in accounts payable	(447)		(486)	(15,706)		(16,639)
Increase in accrued interconnection costs			2,355	804		3,159
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities and other liabilities	67	(4)	(1,718)	(1,424)		(3,079)
Decrease in accrued income taxes	(222)	(710)	(1,271)	(2,252)		(4,455)
Increase (decrease) in accrued interest	(871)	59	(223)	114		(921)
Net cash provided by (used in) operating activities	(11,708)	809	(24,711)	40,913		5,303
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(450)	(14,149)		(14,599)
Sale of property and equipment			805			805
Cash from disposition of business, net of cash disposed				1,676		1,676
Cash used for business acquisitions, net of cash acquired				(34)		(34)
Decrease in restricted cash				103		103
Proceeds from intercompany balance	27,636		14,409		(42,045)	
Net cash provided by (used in) investing activities	27,636		14,764	(12,404)	(42,045)	(12,049)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Purchase of the Company s debt securities	(11,217)					(11,217)
Principal payments on other long-term obligations	(1,200)	(3)	(5,245)	(1,839)		(8,287)
Proceeds from (payments on) intercompany balance		(806)	14,765	(56,004)	42,045	
Net cash provided by (used in) financing activities	(12,417)	(809)	9,520	(57,843)	42,045	(19,504)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				518		518
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,511		(427)	(28,816)		(25,732)
	1,299		670	79,313		81,282

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD										
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	4,810	$		$	243	$	50,497	$	$ 55,550

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PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

(in thousands)

	For the Six Months Ended June 30, 2007					
	PTGI	IHC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ 9,459	$ 5,422	$ 17,167	$ 31,325	$ (53,914)	$ 9,459
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for doubtful accounts receivable			599	4,286		4,885
Stock compensation expense			125			125
Depreciation and amortization			1,896	12,050		13,946
(Gain) loss on sale or disposal of assets			8	(5,086)		(5,078)
Accretion of debt (premium) discount	791	(417)				374
Equity in net gain of subsidiary	(14,881)		(39,033)		53,914	
Loss on early extinguishment or restructuring of debt	2,311	5,050	4	909		8,274
Unrealized foreign currency transaction gain on intercompany and foreign debt	(7,550)	(2,997)	(2,194)	(6,766)		(19,507)
Changes in assets and liabilities, net of acquisitions:						
(Increase) decrease in accounts receivable			3,669	(2,641)		1,028
Decrease in prepaid expenses and other current assets	93		86	1,874		2,053
(Increase) decrease in other assets	460	19	903	(1,488)		(106)
(Increase) decrease in intercompany balance		(8,325)	(838)	9,163		
Increase (decrease) in accounts payable	(287)		(2,141)	1,872		(556)
Decrease in accrued interconnection costs			(4,579)	(66)		(4,645)
Increase (decrease), net, in deferred revenue, accrued expenses, other current liabilities, accrued income taxes and other liabilities	(3,242)	729	343	(1,745)		(3,915)
Increase (decrease) in accrued interest	(1,581)	1,328	(97)	(679)		(1,029)
Net cash provided by (used in) operating activities	(14,427)	809	(24,082)	43,008		5,308
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchase of property and equipment			(454)	(16,587)		(17,041)
Cash from disposition of business, net of cash disposed				5,527		5,527
Decrease in restricted cash			541	55		596
Increase (decrease) in intercompany balance	69,530		36,956		(106,486)	
Net cash provided by (used in) investing activities	69,530		37,043	(11,005)	(106,486)	(10,918)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from issuance of long-term obligations		101,405		7,870		109,275
Deferred financing costs				(6,570)		(6,570)
Principal payments on capital leases, vendor financing and other long-term obligations	(54,882)		(529)	(2,768)		(58,179)
Increase (decrease) in intercompany balance		(102,214)	(12,494)	8,222	106,486	
Net cash provided by (used in) financing activities	(54,882)	(809)	(13,023)	6,754	106,486	44,526
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				1,451		1,451
NET CHANGE IN CASH AND CASH EQUIVALENTS	221		(62)	40,208		40,367
	3,764		(35)	60,588		64,317

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD						
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,985	$	$ (97)	$ 100,796	$	$ 104,684

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13. SUBSEQUENT EVENT

In July 2008, a consolidated, variable interest entity in Canada of which the Company currently owns less than 50% of the equity, sold certain primarily rural WiMax spectrum (a spectrum for transmission of sound, data, and video) assets (representing approximately 10% of the entity s spectrum population coverage). The proceeds from the sale were $4.9 million ($5.0 million CAD).

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Introduction and Overview of Operations

We are an integrated facilities based telecommunications services provider offering a portfolio of international and domestic voice, wireless, Internet, voice-over-Internet protocol (VOIP), data and hosting services to customers located primarily in the United States, Australia, Canada, the United Kingdom and western Europe. Our focus is to service the demand for high quality, competitively priced communications services that is being driven by the globalization of the world s economies, the worldwide trend toward telecommunications deregulation and the growth of broadband, Internet, VOIP, wireless and data traffic.

Generally, we price our services competitively with the major carriers and service providers operating in our principal service regions. We seek to generate net revenue through sales and marketing efforts focused on customers with significant communications needs, including small- and medium-sized enterprises (SMEs), multinational corporations, residential customers, and other telecommunications carriers and resellers and through acquisitions.

Our challenge to growing net revenue in recent years has been to overcome declines in long distance voice minutes of use per customer as more customers are using wireless devices and the Internet as alternatives to the use of wireline phones. Also, product substitution (e.g., wireless/Internet for fixed line voice; broadband for dial-up Internet service provider (ISP) services) has resulted in revenue declines in our legacy long distance voice and dial-up ISP businesses. Additionally, we believe that because deregulatory influences have begun to affect telecommunications markets outside the United States, the deregulatory trend is resulting in greater competition from the existing wireline and wireless competitors and from more recent entrants, such as cable companies and VOIP companies, which could continue to affect adversely our net revenue per minute, as well as minutes of use.

In order to manage our traffic network transmission costs, we pursue a flexible approach with respect to the management of our network capacity. In most instances, we optimize the cost of traffic by using the least expensive cost routing; negotiate lower variable usage based costs with domestic and foreign service providers and negotiate additional and lower cost foreign carrier agreements with the foreign incumbent carriers and others; and continue to expand/reduce the capacity of our network when traffic volumes justify such actions.

Our overall margin may fluctuate based on the relative volumes of international versus domestic long distance services; carrier services versus business and residential long distance services; prepaid services versus traditional post-paid voice services; Internet, VOIP and data services versus fixed line voice services; the amount of services that are resold; and the proportion of traffic carried on our network versus resale of other carriers services. Our margin is also affected by customer transfer and migration fees. We generally pay a charge to install and transfer a new customer onto our network, and to migrate DSL and local customers. However, installing and migrating customers to our own networks, such as the local and DSL networks in Australia and Canada, enable us to increase our margin on such services as compared to resale of services using other carriers networks.

SG&A expenses are comprised primarily of salaries and benefits, commissions, occupancy costs, sales and marketing expenses, advertising, professional fees, and administrative costs. All SG&A expenses are expensed when incurred. Emphasis on cost containment or the shift of expenditures from non-revenue producing expenses to sales and marketing expenses has been heightened since growth in net revenue has been under significant pressure.

Second Quarter 2008 Results and Accomplishments

Overall revenue increased in the first half of 2008 as compared to the same period a year ago. We have experienced declining usage and pricing in the legacy voice business, a decline in dial-up ISP services and a decline in low-margin prepaid services business. That revenue decline has been offset by increases in our wholesale sales and the continued growth of our higher margin broadband, VOIP, local, wireless, data and hosting services revenues, which in the second quarter 2008 are at an annualized net revenue run rate of approximately $247 million. Our objective is to continue to generate increased contribution from these products that exceeds the declines in legacy voice and dial-up Internet products. Our future growth and profitability are dependent upon accomplishing that goal.

We are encouraged by our second consecutive quarter of net revenue growth, and we are targeting slight year-over-year revenue growth for 2008. We are also pleased that continued increases in our growth products have eclipsed the decline in legacy services during the first two quarters of 2008. Growth in net revenue, together with continued cost management, has generated $15.3 million in income from operations, up sharply from $9.8 million in the first quarter. When excluding $5.8 million from a regulatory award involving excessive pricing by Telstra (see ACCC Ruling below) in this quarter and the $2.6 million gain on sale of assets in the first quarter, income from operations increased sequentially by 32%.

During the first two quarters of 2008, we accomplished the following: opened new, and expanded existing, data centers in Canada and Australia; expanded the global DSLAM footprint by 20 to a total of 303 to expand the availability of our local and broadband services; augmented network capacity to offer higher speed DSL services in Australia and Canada; and continued growth of the Company s direct sales force and telemarketing capabilities across its major markets. As the currently available capacity through our infrastructure investment is adequate to meet our 2008 revenue goals, we now expect capital expenditures for the year to be in the $25 million to $30 million range, approximately $5 million lower than our prior guidance.

During the first quarter, we purchased and retired $15 million principal amount of the Company s outstanding debt maturing in the latter half of 2009. We also completed the sales of a minority equity investment in a Japanese entity and surplus fiber assets for an aggregate $2.6 million in cash proceeds. During the second quarter, we reduced outstanding debt principal by $63.2 million through private exchange transactions. We successfully issued $67.1 million principal amount of new debt plus $4.7 million in cash in exchange for $130.3 million principal amount of outstanding debt. These transactions and normal debt amortization payments reduced overall debt principal levels from $664.3 million at December 31, 2007 to $585.0 million at the end of the second quarter 2008, reduced debt maturing in the latter half of 2009 from $28.1 million to $22.8 million, and reduced debt maturing in the latter half of 2010 from $133.6 million to $57.6 million.

Subsequent to the end of the second quarter, a consolidated, variable interest entity in Canada, of which the Company currently owns slightly less than 50% of the equity, sold certain primarily rural WIMAX spectrum (spectrum for transmission of sound, data, and video) assets (representing approximately 10% of the entity s spectrum population coverage) for cash consideration of $4.9 million ($5.0 million CAD).

ACCC Ruling

In April 2008, the Australian Competition and Consumer Commission (ACCC) issued a Final Determination related to unconditional local loop services connection and call diversion charges (2008 ACCC Ruling). As a result, we received a $6.2 million ($6.5 million AUD) cash refund in June 2008 of a portion of fees previously paid, plus interest. Of the $6.2 million refund, $5.8 million was recognized as a reduction to cost of revenue.

PRIMUS 2007-2008 Transformation Strategy

In light of improved operating performance over the course of 2006, we announced a two-year Transformation Strategy as we entered 2007. One of our major priorities was to resume top line revenue growth before the end of 2008. With two successive quarters of top line revenue growth and with our adjusted guidance now targeting positive revenue growth for the full year 2008 over the prior year, assuming constant currency rates, we are on trajectory to meet this goal.

We also emphasized the need to strengthen our balance sheet significantly. At December 31, 2006, we had $639.6 million of debt principal outstanding. Through a series of subsequent debt issuances and exchanges we have reduced that figure to $585.0 million at June 30, 2008. Significantly, that net debt reduction was accompanied with an improvement to liquidity from sales of debt and equity, a more favorable schedule of maturities, and no material increase in cash interest obligations. However, while the Company has made substantial progress in strengthening its balance sheet, more needs to be accomplished.

Generating double digit annual growth in income from operations was another critical objective of the strategy. Our operating improvements reflect the execution of the following sub-strategies:

A) Focus on improving sales productivity and margin enhancements by leveraging our network assets and increasing the revenue mix in favor of higher margin growth services; and

B) Significantly improving our non-sales and marketing cost structure through increased outsourcing and/or off-shoring at lower cost locations globally and maintaining an aggressive cost management program.

While we continue to pursue the goal to sell select assets to improve liquidity as well as to narrow our geographic focus to our major franchises, prevailing uncertainty in the capital markets combined with a weak overall economic outlook is likely to extend our time horizon to meet the goal of generating $50 million in cash proceeds, particularly if valuation parameters are not at acceptable levels.

Foreign Currency

Foreign currency can have a major impact on our financial results. Currently in excess of 81% of our net revenue is derived from sales and operations outside the United States. The reporting currency for our consolidated financial statements is the United States dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive the majority of our net revenue and incur a significant portion of our operating costs from outside the United States, and therefore changes in exchange rates have had and may continue to have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the following exchange rates: USD/Canadian dollar (CAD), USD/Australian dollar (AUD), USD/British pound (GBP), and USD/Euro (EUR). Due to the large percentage of our revenue derived outside of the United States, changes in the USD relative to one or more of the foregoing currencies could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the consolidated statements of operations. We historically have not engaged in hedging transactions. However, during the fourth quarter 2007, we completed a forward currency contract required by the Canadian Credit Agreement and an interest rate swap. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies. Given the recent volatility in exchange rates affecting the functional currencies in our major markets as compared to the USD, we will continue to explore whether hedging activities may provide benefit to us.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the EUR, there could be a negative or positive effect on the reported results for Europe, depending upon whether Europe is operating profitably or at a loss. It takes more profits in EUR to generate the same amount of profits in USD and a greater loss in EUR to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens there is a positive effect on reported profits and a negative effect on the reported losses for Europe.

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In the three months and six months ended June 30, 2008, as compared to the three months and six months ended June 30, 2007, the USD was weaker on average as compared to the CAD, AUD, GBP and EUR. The following tables demonstrate the impact of currency fluctuations on our net revenue for the three months and six months ended June 30, 2008 and 2007 (in thousands, except percentages):

Net Revenue by Location in USD

	For the three months ended June 30,				For the six months ended June 30,			
	2008	2007	Variance	Variance %	2008	2007	Variance	Variance %
Canada	$ 68,989	$ 63,588	$ 5,401	8%	$ 137,438	$ 126,372	$ 11,066	9%
Australia	$ 75,992	$ 71,950	$ 4,042	6%	$ 150,066	$ 142,151	$ 7,915	6%
United Kingdom	$ 22,204	$ 25,100	$ (2,896)	(12)%	$ 39,581	$ 49,973	$ (10,392)	(21)%
Europe*	$ 22,603	$ 19,660	$ 2,943	15%	$ 42,654	$ 38,993	$ 3,661	9%

Net Revenue by Location in Local Currencies

	For the three months ended June 30,				For the six months ended June 30,			
	2008	2007	Variance	Variance %	2008	2007	Variance	Variance %
Canada (in CAD)	69,710	69,951	(241)	(0)%	138,473	143,542	(5,069)	(4)%
Australia (in AUD)	80,598	86,643	(6,045)	(7)%	162,494	176,026	(13,532)	(8)%
United Kingdom (in GBP)	11,268	13,257	(1,989)	(15)%	20,054	26,788	(6,734)	(25)%
Europe* (in EUR)	14,466	14,582	(116)	(1)%	27,844	29,342	(1,498)	(5)%

* Europe includes only subsidiaries whose functional currency is the Euro dollar.

Critical Accounting Policies

See Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2007 for a detailed discussion of our critical accounting policies. These policies include revenue recognition, determining our allowance for doubtful accounts receivable, accounting for cost of revenue, valuation of long-lived assets and goodwill and accounting for income taxes. No significant changes in our critical accounting policies have occurred since December 31, 2007.

Results of Operations

Results of operations for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007

Net revenue increased $10.0 million or 4.4% to $236.5 million for the three months ended June 30, 2008 from $226.4 million for the three months ended June 30, 2007. Our revenue from broadband, VOIP, local, wireless, data and hosting services contributed $61.8 million for the three months ended June 30, 2008, as compared to $53.3 million for the three months ended June 30, 2007. Our wholesale carrier and prepaid services contributed $48.9 million and $10.1 million, respectively, for the three months ended June 30, 2008, as compared to $43.5 million and $11.6 million, respectively, for the three months ended June 30, 2007.

United States: United States retail net revenue decreased $3.2 million or 11.6% to $25.1 million for the three months ended June 30, 2008 from $28.4 million for the three months ended June 30, 2007. The decrease is primarily attributed to a decrease of $4.0 million in retail voice services and a decrease of $0.3 million in Internet services, offset by an increase of $1.0 million in retail VOIP.

Canada: Canada retail net revenue increased $5.5 million or 8.6% to $69.0 million for the three months ended June 30, 2008 from $63.5 million for the three months ended June 30, 2007. The increase is primarily attributed to an increase of $3.9 million in Internet, data and hosting services, an increase of $1.8 million in local service,

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an increase of $0.5 million in VOIP services and an increase of $0.3 million in wireless services. These increases were partially offset by a decrease of $0.2 million in prepaid services and a decrease of $0.9 million in retail voice services. The strengthening of the CAD against the USD accounted for a $5.6 million increase to revenue, which is included in the explanations above, and which reflects changes in the exchange rates for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007.

The following table reflects net revenue for each major country in North America (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the Three Months Ended		Year-over-Year	
	June 30, 2008 Net Revenue	June 30, 2007 Net Revenue	Variance	Variance %
United States	$ 22,445	$ 26,831	$ (4,386)	(16)%
Canada	$ 68,989	$ 63,500	$ 5,489	9%
Other	$ 2,680	$ 1,521	$ 1,159	76%

Europe: European retail net revenue decreased $1.5 million or 8.2% to $16.9 million for the three months ended June 30, 2008 from $18.4 million for the three months ended June 30, 2007. The decrease is primarily attributable to a decrease of $1.7 million in retail voice services and a $0.4 million decrease in wireless services, offset by a $0.6 million increase in retail VOIP. The strengthening of the European currencies against the USD accounted for a $1.3 million increase to revenue, which is included in the explanations above, when comparing the exchange rates for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007.

The following table reflects net revenue for each major country in Europe (in thousands, except percentages):

Revenue by Country (Excluding Wholesale) in USD

	For the Three Months Ended June 30, 2008		For the Three Months Ended June 30, 2007		Year-over-Year	
	Net Revenue	% of Europe	Net Revenue	% of Europe	Variance	Variance %
United Kingdom	$ 6,786	40%	$ 11,612	63%	$ (4,826)	(42)%
France	5,050	30%	2,503	14%	2,547	102%
Belgium	2,141	13%	2,436	13%	(295)	(12)%
Spain	1,015	6%	1,149	6%	(134)	(12)%
Other	1,933	11%	731	4%	1,202	164%
Europe Total	$ 16,925	100%	$ 18,431	100%	$ (1,506)	(8)%